WEALTH MANAGEMENT INTERNATIONAL, LTD.
Proactive Investment Management & Financial Planning

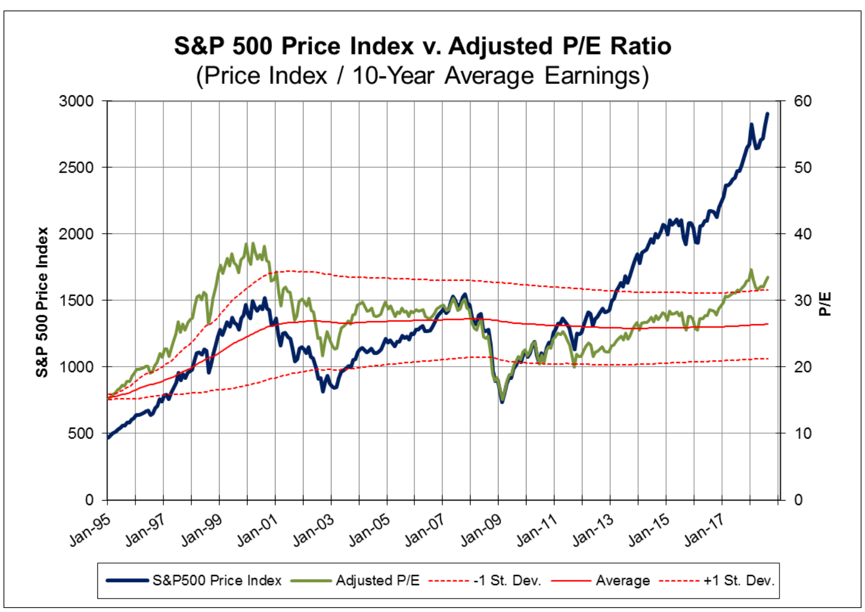
Monthly Market Comment
September 1, 2018

The good times continued to roll for U.S. stocks during August. Stock prices rose for a fifth straight month, and they even set a new record high. Less noticed was the fact that bonds, commodities, and real estate also posted positive returns.

Stocks

U.S. stock prices rose almost constantly during August, helped by signs of continued good economic growth and apparent progress in settling international trade disputes. As we predicted in our report last month, the S&P 500 stock price index set a new closing record high at 2,914.04 on August 29, although it retreated slightly in the last two days of the month. The index ended August up 3.0% from the end of July and an impressive 17.4% higher than at the end of August 2017. Taking into account dividends, the total return on the S&P 500 was 3.3% in August and 19.7% over the last year.

Looking ahead, we think stocks will continue to receive support from the on-going economic expansion, the new tax cuts and government spending hikes, and the potential for acceptable trade deals. With the momentum they have now regained, stock prices seem likely to set more record highs in the near term. Still, we see gathering headwinds that could short-circuit the economic expansion and stock market later in the year. Besides the threat of renewed trade tensions, soft spots seem to be developing in certain sectors of the domestic economy (such as housing), while rising cost pressures could eventually erode profit margins and/or prompt the Federal Reserve to start raising interest rates more aggressively. Short-term interest rates have also risen almost to the point where they are equal to long-term rates, which has historically been a negative sign for the economy and stocks, while corporate earnings have surged to extreme and probably unsustainable levels. Finally, stock valuations are very high. If stock values now start to pull back, history teaches that they could well start a significant downturn. Signs such as these have historically shown up six months to a year before such a downturn gathered force. We are therefore not panicking yet, but we have started to reduce risk across our various strategies.



23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 |1-888-91-ASSET

Technical indicators also seem to support the case for a near-term rise in stock prices before any substantial downdraft starts. For example, the S&P 500 price index now stands above all its key simple moving averages (SMAs), with its 20-day SMA standing above its 50-day SMA, and its 50-day SMA standing above its 200-day SMA. That pattern has historically pointed to a continued uptrend in stocks. The share of S&P 500 stocks trading above their 200-day SMA has also been gradually rising toward 70%, which is the level at which we consider an uptrend to be broad based. Finally, the performance of the Dow Jones Transportation Index has recently matched or exceeded that of the overall market, which has traditionally been a positive indicator for stocks. These good indicators add to the fact that a string of month-end record highs like the S&P 500 posted through January has historically been followed not by an abrupt, sustained downtrend, but by a continued uptrend where the record highs merely start to come less frequently. The only significant negative in the technicals is that the main short-term momentum indicators (such as the "moving average convergence/divergence," or MACD) now suggest stocks are somewhat over-bought. If the S&P 500 continues to rise as we anticipate, we believe its next significant resistance level will come at the psychologically important level of 3,000. If stock prices instead start to fall again, we think the next significant support levels would be at approximately 2,856 and 2,802.

S&P 500 Stock Price Index + "MACD" Momentum Indicator

Source: BigCharts.com

Bonds

With the continued strength in the economy, inflation pressures are rising, and policymakers at the Federal Reserve have reiterated their intention to keep boosting interest rates gradually. All the same, the resulting rise in the value of the dollar has made it harder for several big developing countries to service their dollar-denominated debt, and the threat of a financial crisis in the "emerging markets" has prompted some investors to seek a haven in U.S. Treasury securities. Stronger demand pushed prices higher in August, driving yields lower. The yield on the benchmark 10-Year Treasury Note ended the month at just 2.85%, compared with 2.96% at the end of July. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was 0.5% in August, and a negative 0.8% over the last year.

Looking forward, we still think rising inflation pressure and increased government borrowing will be a headwind for bonds in the near term, although we remain hopeful that the selling will not get too intense. Indeed, so far this year, buying interest has increased whenever the 10-Year Treasury yield has reached the 3.00% range, suggesting that investors can still be enticed into bonds when they perceive juicy yields. We also think policy risks and the threat of an emerging-market crisis could well keep investors interested in the relative stability and safe-haven characteristics of U.S. fixed-income investments.

Real Estate and Commodities

Publicly-traded real estate investment trusts (REITs) sold off sharply at the turn of the year, largely on fears of rising interest rates, but the renewed bond buying and generally retreating yields in recent months have supported a prolonged recovery. The FTSE NAREIT Price Index jumped 2.5% during August, improving from its mild rise of 0.5% in July and marking its sixth straight monthly gain. The price index was up 2.2% from the end of August 2017. Reflecting their relatively high dividends, the total return on publicly-traded REITs was a more positive 2.8% in August and 6.1% over the last year. Looking ahead, we believe the outlook for these REITs is modestly positive, so long as economic growth continues and bond yields don't rise too much.

Commodities also produced positive returns in August, with the S&P GSCI Total Return Index rising 1.1%. That left the index up a strong 22.2% from August 2017. The main reason for the upturn in August was that energy commodities started to rebound. Energy prices had been trending downward ever since several key producing countries agreed in June to boost output, but falling stockpiles and the potential for reduced supply from particular producers have recently helped prices rebound. In contrast, moderating economic growth abroad and the remaining threat of protectionist trade policies continued to drive industrial metals prices lower, while rising U.S. bond yields and the stronger dollar continued to weigh on the precious metals. As foreign countries continued to retaliate against the initial U.S. moves toward protectionism by raising barriers to U.S. agricultural exports, prices for goods ranging from corn and wheat to soybeans and feeder cattle also fell. Going forward, we remain hopeful that continued economic growth at home and abroad will keep commodity demand on the upswing, supporting further price gains for a while yet.

Patrick Fearon, CFA
Chief Investment Officer

Asset Class	Index	Ending Reading, Latest Month	1-Month Change	3-Month Change	12-Month Change
U.S. Stocks	S&P 500 Price Index	2,901.52	3.0%	7.3%	17.4%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	289.06	-2.3%	-2.3%	0.6%
REITs	FTSE NAREIT All-Equity Price Index	697.95	2.5%	6.6%	2.2%
Commodities	S&P GSCI Total Return Index	2,751.35	1.1%	-1.2%	22.2%
Bonds	S&P U.S. Aggregate Bond Index	191.90	0.5%	0.5%	-0.8%